National Audit Office

The adult social care market in England

Department of Health & Social Care

REPORT

by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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Value for money reports

Our value for money reports examine government expenditure in order to form a judgement on whether value for money has been achieved. We also make recommendations to public bodies on how to improve public services.

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Key facts

839,000

number of adults receiving long-term support at some point during 2019-20, arranged by local authorities

£16.5bn

net local authority expenditure on adult social care in 2019-20

25,800

estimated number of regulated adult social care locations as at March 2020

30%	of the overall care market by number of beds, subject to Care Quality Commission (CQC) market oversight of the financial sustainability of most difficult-to-replace care providers
1.5 million	estimated number of people working in adult social care in 2019-20
29%	projected forecast increase in adults aged 18 to 64 requiring care by 2038 compared with 2018
90%	projected forecast increase in costs of care for adults aged 18 to 64 by 2038 compared with 2018
57%	projected forecast increase in adults aged 65 and over requiring care by 2038 compared with 2018
106%	projected forecast increase in total costs of care for adults aged 65 and over by 2038 compared with 2018

Summary

1 Adult social care (care) covers social work, personal care and practical support for adults with a physical disability, a learning disability, or physical or mental illness, as well as support for their carers. Family or friends provide most care unpaid. The amount of unpaid care provided affects the extent of formal care required, funded through local authorities, or adults buying their care privately (self-funders). Eligibility criteria for accessing publicly funded care are set out in the Care Act 2014.

2 Care is delivered through local authorities, which are accountable to their local populations. The Department of Health & Social Care (the Department) is responsible for setting national policy and the legal framework. It is accountable to Parliament and the public for the performance of the care system as a whole. The Ministry of Housing, Communities & Local Government (the Ministry) oversees the distribution of funding to local government and the financial framework within which local authorities operate. As set out in the Care Act 2014, local authorities are responsible for commissioning care, mostly from independent providers which are autonomous enterprises. Around 14,800 registered organisations across 25,800 locations provide care. The Care Quality Commission (CQC) regulates care providers for quality and also provides oversight of the financial resilience of the largest and potentially most difficult-to-replace care providers.

3 Under the Care Act 2014, the Department does not have legal powers to intervene or hold individual local authorities to account for their performance. In February 2021, the Department published its legislative proposals for a Health and Care Bill, which include plans for gathering more information on social care and would give CQC new duties to review and assess local authority performance.

4 In 2019-20, local authorities spent a net £16.5 billion on care. Current demographic trends suggest a greater demand for care and increasingly complex care needs in the future, resulting in care forming an ever-increasing proportion of public expenditure. Future reforms, promised for several years, will need to tackle these growing challenges.

Our report

5 This report examines the current care market and the Department's role in overseeing the market now and in the future, with the aim of offering insights and recommendations ahead of future social care reforms. It builds on a significant body of past National Audit Office (NAO) work on care, including on the care workforce; personalised commissioning; and the interface between health and care. In Part One, we provide an overview of the market. In Part Two, we assess market oversight. In Part Three, we assess plans for future demand and reform.

6 Our main methods were analysis of available data; interviews with central and local government, provider organisations and other stakeholders; and review of published research and relevant departmental documents. Most data refer to the market as at 31 March 2020, the latest point for comprehensive data. Appendices One and Two set out our audit approach and methods in more detail.

7 We do not examine care delivery or policy in the devolved nations (Northern Ireland, Scotland, Wales) or internationally. The report does not assess care commissioned by health bodies, the interface between health and care systems in detail, or user experience. We therefore do not assess the impact of or issues arising from NHS continuing healthcare or NHS-funded nursing care.

Key findings

Overview of the market

8 Local authorities, who arrange most formal care, were facing significant financial pressures before COVID-19. Government funding for local authorities in aggregate fell by 55% in 2019-20 compared with 2010-11, resulting in a 29% real-terms reduction in local government spending power (government funding plus council tax revenue). Our report on *Local Government finance in the pandemic* highlighted how local authority finances will continue to be under significant financial pressure in 2021-22 (paragraph 1.7).

9 Local authority spending on care is lower than in 2010-11 but has begun to rise compared with previous years, with most spend going on long-term support. Local authority net spending (funded by council tax, government grants and business rates) in 2019-20 was £16.5 billion; 4% lower in real terms than in 2010-11, but at its highest level since 2012-13. Of this local authority net spend plus £3.1 million in user contributions (amounts paid to local authorities by some care users towards their care costs), £15.4 billion was spent on providing long-term support, of which £6.4 billion was for physical support and £6.0 billion was for learning disability support (paragraphs 1.8 to 1.10).

10 Since 2015-16, the number of adults aged 65 and over receiving long-term support arranged by local authorities has fallen. Between 2015-16 and 2019-20, the total number of adults receiving long-term support arranged by local authorities fell from 873,000 to 839,000, within which those aged 65 and over fell 6.6% from 587,000 to 548,000. The Department does not have adequate data to assess how much of this decrease is due to reduced support offered by local authorities, more self-funders or the impact of preventative action meaning adults require less support and is planning research into this (paragraphs 1.13 and 1.14).

11 Estimates suggest high levels of unpaid care and unmet need. Pre COVID-19, the charity Carers UK estimated there were around 7.3 million carers in England, most of whom are unpaid family, friends and neighbours who provide care informally. In the Health Survey of England 2019, 17% of people aged 16 and over reported providing unpaid care. Levels of unmet care need in adults aged 65 and over has remained relatively stable at around 24% (paragraphs 1.17 to 1.20).

12 Most care is good quality, but 16% of CQC-registered care providers require improvement or are inadequate. As at May 2020, CQC found that four out of five registered adult social care services in England provided good care overall, with one in twenty providers rated outstanding. However, 15% of services require improvement and 1% of services were inadequate. The best-performing region was the North East (where 89% of locations provide good or outstanding care) while the worst-performing region was West Midlands (where 80% of locations provide good or outstanding care) (paragraph 1.23).

13 COVID-19 could have short- to medium-term consequences for the market's financial sustainability. Financial data pre-COVID-19 shows provider earnings varied. Some 55% of large for-profit care homes and 39% of large for-profit care at home providers reported a return on investment of less than 5% in 2019. Significant numbers of large providers are not financially resilient. We previously reported how the COVID-19 pandemic could negatively impact profitability as care home providers rebuild occupancy, which could take at least 18 months. CQC's latest analysis found that, despite COVID-19, revenue and profitability among large providers had remained relatively stable due to government support. However, it warns that ongoing support could be required in 2021 if care home admissions remain low or costs inflated. Occupancy in care homes fell from around 90% at the start of the pandemic to around 80% in February 2021. CQC found that large home care and specialist providers have been financially less affected by COVID-19 (paragraphs 1.24 to 1.27 and 2.31).

Oversight and accountability

14 Short-term funding settlements have hampered long-term planning, innovation and investment in care. The sector has long called for a sustainable, long-term funding solution for care. We have previously emphasised the importance of long-term planning and clarity beyond the end of a spending review period. Short-term and one-off funding initiatives for local government and successive one-year spending reviews have hampered local authorities' ability to plan for care costs beyond the current financial year, constraining much-needed innovation and investment. Government's increasing emphasis on raising permanent funds via increases in council tax through the precept could disadvantage those areas with a lower tax base and a greater demand for local authority-funded provision (paragraphs 2.4, 2.6 and 2.7).

15 Current accountability and oversight arrangements are ineffective for overseeing a disaggregated market. While the Department is responsible for securing funding for care, the Ministry distributes most grant funding to local authorities based partially on an out-of-date adult social care funding formula. In recent years ad-hoc funding increases have been required. Despite its high-level objectives for care, the Department lacks visibility of the effectiveness of local authority commissioning. The Department told us that because of its lack of legal powers under the Care Act, it has had limited oversight of local authority performance in a system which commissions services largely based on care home placements, staff time and tasks rather than outcomes. Instead, the Department relies upon insights from CQC's inspection and market oversight roles, as well as the Adult Social Care Outcomes Framework (the framework) to assess outcomes achieved. Yet the framework does not currently cover all local authority responsibilities for care, nor does it focus sufficiently on well-being and user perspective. These limitations mean the Department cannot evaluate spending, assess return on investment, or the extent of additional funding needed. In February 2021, the Department outlined proposals which include increasing its oversight of local authority delivery of social care and improving the data it has to assess capacity and risk in the system (paragraphs 2.2, 2.3, 2.7, 2.9, 2.13 to 2.18 and 2.30).

16 The Department acknowledges that most local authorities pay care providers below a sustainable rate but does not use this analysis to challenge local authorities directly. The Department uses an internally developed cost model to assess how many local authorities pay care providers below what it considers are benchmark costs. For 2019-20 the Department assessed that the majority of local authorities paid below the sustainable rate for care home placements for adults aged 65 and over and below the sustainable rate for home care. The Department does not challenge local authorities who pay low rates (paragraph 2.5).

17 The Department increased its focus on care and its oversight of the market in response to COVID-19. The Department outlined how, under the current Care Act 2014, its oversight of the market had been limited. Stakeholders reported the Department's limited engagement with, and understanding of, the sector going into the pandemic. Prior to COVID-19 there was no process in place to collect a wide range of data from providers regularly. There were also significant data gaps on self-funders, levels of unpaid care and unmet need and a lack of visibility of funding flowing through to providers, which remain. In response to COVID-19, the Department has increased the data it obtains on care providers and it intends to legislate for new powers to collect further data. For example, as part of its adult social care winter plan, the Department carried out a review of risks to local care markets and service continuity issues, offering targeted support. It also re-established a director-general post with sole responsibility for social care, increased its policy team three-fold and set up specific teams to provide support and challenge to local government on the COVID-19 response (paragraphs 2.10 to 2.12, 2.18, 2.19, 2.21, 2.25, 2.26 and 2.34).

18 Despite the introduction of CQC's market oversight function, stakeholders lack visibility of provider finances across the care market. The collapse of Southern Cross in 2011 highlighted the need for government to develop a system to address serious provider failure. Since 2015, CQC has overseen the financial sustainability of around 65 difficult-to-replace care providers, representing around 30% of the overall care market by number of beds. Currently local authorities do not benefit from CQC's analysis and monitoring until it notifies them that a provider is likely to fail, and service cessation is likely. Under the Care Act 2014, the scheme was only designed to give local authorities advanced notice of potential failure and service cessation so they can enact contingency plans in line with their legal duties to ensure continuity of care, if necessary. Some providers with a sizeable regional or local presence may not be subject to CQC's oversight but their failure would be significant. In 2020, consultants commissioned to analyse provider viability advised the Department to improve the quality of financial data and its internal processes to track provider finances in real-time. In view of local authority responsibilities for commissioning care and CQC's market oversight role, the Department does not collect additional information on provider finances or their sustainability and therefore did not have processes in place to assess if providers received enough support at the start of COVID-19. Stakeholders raised concerns over the lack of transparency of provider costs and their financial structures, and that increases in fees may result in higher profits rather than increasing care quality (paragraphs 2.18, 2.22 to 2.26 and 2.30).

19 Local authorities understand their duties to shape the market, but say they lack the levers to do this effectively. The Care Act 2014 requires local authorities to ensure a diverse market with enough high-quality services for adults to choose from. Nearly all local authorities and stakeholders we spoke to told us that these market-shaping responsibilities were clear but their ability to do so varied. Local authority market position statements should signal how a local authority would like their local market to develop. From our sample review of 38 statements, less than half of local authorities had updated these since 2016 (paragraphs 2.27 to 2.30).

Understanding future demand and costs

20 Based on long-term forecasts there will be large increases in future demand for care and therefore cost. Demand and cost projections are highly uncertain. The Department projects that if current patterns of care continue, around 29% more adults aged 18 to 64 and 57% more adults aged 65 and over will require care in 2038 compared with 2018. Between 2018 and 2038, the total costs of care are projected to rise by 90% for adults aged 18 to 64, from £9.6 billion to £18.1 billion, and 106% for adults aged 65 and over from £18.3 billion to £37.7 billion. The Department has performed sensitivity analysis on these projections (paragraphs 3.2 to 3.9).

21 The Department is unable to demonstrate that it has adapted demand and cost projections for potential changes in care delivery. The Department does not adequately model the impact of a range of relevant issues. These include changing the mix of care provided, for example a greater use of care at home, the potential impact of breakthroughs in medical treatment or preventative initiatives and the potential impact of cross-government or societal changes such as tax changes or increased flexible working. The Department has commissioned research into some of these issues (paragraphs 3.10 and 3.11).

22 Significant workforce challenges remain, yet the Department has no current plans to produce a workforce strategy. Around 1.5 million people work in care. We have not seen any evidence which has persuaded us to change the main conclusions we reached in our 2018 report *The adult social care workforce in England*. We found the Department had not followed through on key commitments it had made to enhance training and career development and to tackle recruitment and retention challenges. Stakeholders identified the need for central leadership to improve pay and conditions for care workers and to incentivise improved training and development. Despite NAO and Committee of Public Accounts recommendations that the Department produce a workforce strategy and its commitment to do so in 2018, the Department has not had a social care workforce strategy since 2009. The Department told us that a workforce strategy would be dependent on the next spending review settlement and wider system reforms to funding and accountability committed to in the recent white paper (paragraphs 3.16 and 3.17).

23 The Department does not have a clear strategy to develop accommodation for adults with care needs. The Department does not monitor the condition of current accommodation for adults with care needs itself. Business intelligence estimates suggest at current rates it will take several decades to fully modernise care homes. The Competition & Markets Authority warned in 2017 that the current funding situation combined with uncertainty about future funding and care policy means providers are reluctant to invest in the additional capacity needed. Current funding for new investment in accommodation for adults with care needs is ad-hoc, with no coordinated, long-term vision across government about how to fund or incentivise the market through mechanisms such as fee rates, housing benefit, grant funding or loans. The Ministry's calculation of future housing need does not consider the extent of older adult or specialist housing required. The Ministry expects local authorities to consider housing for different groups, including for older and disabled people, within their Local Plans for housing, but as we reported in *Planning for new homes in 2019*, only 44% of local authorities have an up to date Local Plan (paragraphs 3.18 to 3.21).

24 The Department will be responsible for leading cross-government efforts to deliver long-awaited reforms which address long-standing problems in the sector. Despite many years of government papers, consultations and reviews, the Department has not yet brought forward a reform plan. The COVID-19 pandemic has underlined the need to address some of the long-standing issues, such as limited data; workforce investment; and the visibility of provider finances. However, it has also delayed promised reforms as government prioritises the COVID-19 response. The Number 10 Health and Social Care Taskforce, which was focused on Spending Review 2020, concluded its work in October 2020. The Department is leading reform plans and has committed to bringing forward proposals in 2021 (paragraphs 3.11 and 3.12).

25 Reforms will be a significant challenge and will need a whole system, cross-government approach. Care policy cuts across many other policy areas. We have previously expressed concerns about the impact of planning and managing delivery in siloes on value for money and local services if multiple departments take separate, individual views of their policy areas. While the Department routinely meets with other departments to discuss various issues, future policy decisions will need to consider the interconnectedness of these areas to avoid creating tension and perverse incentives which negatively affect choices about care. For example, tax or benefit changes which could affect subsequent spend on social care. Better integration at a local level will be essential for delivering the person-centred, preventative care model the sector is calling for (paragraphs 3.14, 3.15, 3.22 and 3.23).

Conclusion on value for money

26 High-quality care is critical to the well-being of some of the most vulnerable adults in society. Yet levels of unpaid care remain high, too many adults have unmet needs and forecasts predict growing demand for care. The lack of a long-term vision for care and short-term funding has hampered local authorities' ability to innovate and plan for the long term, and constrained investment in accommodation and much-needed workforce development. In a vast and diverse social care market, the current accountability and oversight arrangements do not work. The Department currently lacks visibility of the effectiveness of care commissioned and significant data gaps remain. As such, it cannot assess the outcomes achieved across the system and whether these are value for money.

27 COVID-19 has focused attention on social care as never before. It has highlighted existing problems with social care and emphasised significant gaps in the Department's understanding of the market. However, we have also seen substantial efforts from those across the sector to deliver these essential services in such challenging circumstances. The Department has recently taken steps to increase the capacity of its teams; address data gaps, with local government and care providers; and strengthen system accountability and assurance. This renewed focus, impetus and collaborative approach must be capitalised upon when government finally focuses on the long-awaited social care reforms.

Recommendations

28 The Department should:

a as a priority, **set out a cross-government, long-term, funded vision for care**. It should collaborate with the Ministry and local government in particular; factoring in sector and user perspectives, such as people with lived experience;

b **develop a workforce strategy**, in line with its previous commitments, to recruit, retain and develop staff, aligned with the NHS People plan where appropriate;

c in conjunction with the Ministry, Department for Work & Pensions and local government**, develop a cross-government strategy for the range of accommodation and housing needed for people with care needs**, and how to fund it;

d **assess the performance and cost data it needs to gain assurance over the system's performance as a whole** and the potential costs to the sector of providing these data, bearing in mind its current proposals for enhanced accountability and oversight;

e **address significant gaps in the performance and cost data it collects on care, particularly on self-funders and unmet need.** In doing so, it should be mindful of, and assess, the potential burden on local authorities and care providers;

f **consult on options for enhancing support for local commissioners** which promotes an integrated approach and incentivises commissioning for outcomes; and

g **explore with CQC how best to increase visibility of and transparency over providers' financial sustainability and costs**, bearing in mind operational and legal practicalities.